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DEPT FOR AF/SPG, EEB/IFD/OMA AND EEB/IFD/ODF
NSC FOR HUDSON AND PITTMAN
DEPT PLS PASS USAID FOR AFR/SUDAN
DEPT PLS PASS TREASURY FOR OIA, USED IMF AND USED WORLD BANK
ADDIS ABABA ALSO FOR USAU

SENSITIVE
SIPDIS

E.O.12958: N/A
TAGS: EFIN ECON EAID PREL PGOV SOCI IBRD IMF SU
SUBJECT: IMF/WORLD BANK ASSIGN NUMBERS TO SUDAN'S ECONOMIC
CHALLENGES

REF: A. KHARTOUM 1718
¶B. KHARTOUM 1824

¶1. (SBU) SUMMARY. The global economic recession will severely affect Sudan's economy, with South Sudan feeling a significantly greater budget pinch, according to IMF/World Bank analysis. The Bank/Fund calculate that Sudan's current account deficit will more than double (from U.S. $3.9 billion to $8.1 billion) in 2009, due to both declining oil revenues and falling foreign direct investment (FDI) and remittances. The Government of National Unity (GNU) budget deficit will swell from 4.7 billion Sudanese Pounds ($1=appx. 2.2 SDG) to SDG 8.5 billion (an 81 percent increase) in FY 2009, the result of an anticipated 30 percent drop in oil revenues. Government of South Sudan (GoSS) revenues likely will decline back to FY 2006-2007 levels, roughly half of its FY 2008 windfall. END SUMMARY.

¶2. (SBU) The Mission has been provided with a World Bank/IMF power-point presentation that was delivered to the donor community in Juba, outlining the IFIs most recent analysis of Sudan's current macroeconomic situation. (Power point slides emailed to AF/SPG and EEB/IFD/OMA.) The presentation adds quantitative detail to CDA Fernandez's recent conversation with World Bank Country Director Lawrence Clarke (ref. A).

Global Downturn Hits Sudan's Current Account

¶3. (SBU) According to the Bank/Fund, the current global economic recession will negatively affect both Sudan's balance of payments situation, adding to its already unsustainable debt burden, and to the GoS's fiscal deficit. According to Bank/Fund figures, FDI has declined 31 percent since 2005 (from USD $3.5 billion to $2.4 billion in 2008) and is expected to continue falling to $2.0 billion in 2009 and 2010. The IFIs expect FDI to begin to rise thereafter, to $3.0 billion in 2012.

¶4. (SBU) The IFIs calculate that in 2009, Sudan will earn $3.3 billion less from oil exports than they had estimated in their September Debt Sustainability Analysis. Including both falling capital account flows and oil prices, the IFIs now estimate that Sudan will face a Balance of Payments gap $4.1 billion greater than they forecast only three months ago.

And Pinches the GoS Budget

¶5. (SBU) Falling world oil prices and stagnant output also are having an impact on the GoS budget. (Budget analyzed in greater detail ref. B.) GoS oil revenues are forecast to fall at least 30 percent in FY '09, reducing total GoS revenues by 15 percent. With expenditures remaining unchanged from FY '08 at approximately SDG 26 billion (USD $11.73 billion), the fiscal deficit will balloon to SDG 6.7 billion or 6.2 percent of GDP, an 81 percent increase from FY '08.

While the GoSS Faces Plunging Revenues

¶6. (SBU) While the GNU faces a 15 percent revenue drop, the GoSS will see its revenues, derived almost exclusively from oil, plunge by approximately 50 percent, from just over USD $3.0 billion in FY '08 to a little more than $1.5 billion in FY '09. In principle, this drop should be a difficult, but not disastrous, challenge as 2009 revenues will only be returning to their level in 2006 and 2007, from the abnormally high FY' 08. With good management, the GoSS should be able to weather the storm. Unfortunately, sound budget management has not proven to be the GoSS' strong suit. In both 2007 and 2008, the GoSS significantly overspent in the first half of the year and was saved from running major fiscal deficits both years only by the late 2007-early 2008 oil-price surge.

Comment

¶7. (SBU) These IFI numbers provide some rigor and detail to what was already clear in general terms: Sudan's economy, both North and South, will take a significant hit from the global economic recession. Given its arrears to the IFIs, Sudan is unable to access concessionary IFI lending or seek restructuring of what already is regarded as an unsustainable debt burden. The growing BoP financing gap will only add to the problem. Sudan is paying the price for its growing dependence on oil as its main export. With Sudan already facing multiple challenges in the coming year, the economic crunch further limits the GoS's room to maneuver and adds yet another variable to an already complex political equation.

ASQUINO